

# Water and Power Associates, Inc.

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*Water and Power Associates, Inc. is a nonprofit, independent, private organization incorporated in 1971 for informing and educating its members, public officials and the general public on critical water and energy issues affecting the citizens of Los Angeles, of Southern California and of the State of California*

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March 20, 2010

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RE: **Comments on the January 10, 2010 Draft Report  
Allocating Emissions Allowances under California's  
Cap-and-Trade Program**

The Los Angeles Water and Power Associates, Inc. (Associates) is pleased to provide comments on recommendations contained in the above titled report prepared by the Economic and Allocation Advisory Committee (EAAC). The Associates previously provided comments on July 30, 2008 to the California Air Resources Board (ARB) regarding its California Climate Change Scoping Plan. The Associates should not to be confused with the City of Los Angeles Department of Water and Power or any other municipal entity.

The EAAC's recommendations to ARB regarding the allocation of allowances are to "rely principally and perhaps exclusively, on auctioning as the method for distributing allowances". This recommendation would require California's municipal electric utilities to purchase allowances, at substantial costs, just to continue to operate their systems. The EAAC projects that allowances could cost several billions of dollars. A further complication is that the proposal will add an "additional cost layer" to municipal electric utilities that are aggressively pursuing renewable energy goals. These goals, 20% by 2010 and 35% 2020, will require substantial commitments of resources and hundreds if not billions of dollars. So, at the very same time municipal utilities

are committing major revenues to renewable energy goals, the EAAC's recommendation effectively doubles the cost burden of the utilities. Estimates of the combined cost will increase electric bills well over 70%. There does not appear to be any attempt by EAAC to address the economic effects of their recommendations in conjunction with other related programs. However, the EAAC clearly states in their report that ARB should not discourage rate increases because higher rates will encourage conservation and less demand for energy. The electric utility customer/rate payer/businesses/residents of California who will be expected to foot the bill would take issue with this philosophy. Rulemakings should not be made in a vacuum, especially when the issues are interdependent. Therefore, the Associates recommend that before ARB takes any action, it should consider the combined effect of its recommendation.

To further the uncertainty of the costs and impacts on the customer/rate payer/businesses/residents of California, ECCA recommends that the proceeds from the auction be given to an as yet to be determined State agency or new commission to administer the redistribution of the proceeds. The report clearly indicates that the proceeds will not necessarily go to those that paid the bills. This reallocation of potentially billions of dollars by the will of an agency or commission is ripe for misuse and will likely result in the transfer of wealth from one segment of society to another. It appears that ECCA's focus is on generating revenue for the State and not necessarily on reducing green house gases (GHG). The ability of a municipal electric utility to continue to provide services, meet system requirements, increase its renewable energy portfolio and purchase allowances will strain its ability to meet its financial responsibilities. Therefore, the Associates recommend that, before ARB supports the establishment of another agency and another substantial program in California, it should encourage and seek input from stakeholders, the segment of society that is going to be asked to pay for it – the customer/rate payer/businesses/residents of California and not chiefly rely on academia, environmentalists, regulators or utilities.

The Associates believe that there are several successful cap and trade programs that can be emulated by California. The Federal Acid Rain Program for the reduction of sulphur dioxide emissions (SO<sub>2</sub>) is an excellent example for allocating allowances to existing emitting sources, with specific reduction goals. The Federal Program allows sources to participate in the market to buy or sell allowances. It provides the covered sources with a means to assess and meet their needs in the most cost effective manner while still meeting the objectives of the Acid Rain Program. The program leaves it up to the source to determine the method to achieve compliance and not the regulator. Another example of a successful program is California's South Coast Air Quality Management District's (SCAQMD) Regional Clean Air Incentives Market Program (RECLAIM) to regulate emissions of nitrogen oxide (NO<sub>x</sub>). Under RECLAIM, facilities received emission allocations with a declining cap. RECLAIM is also market driven in that allowances can be bought and sold and it leaves it up to the facility to determine how to achieve compliance in the most cost effective way. Both the Federal and SCAQMD programs provide facilities with initial allowances, have declining allowances and leave it up to the source to maintain compliance. The key to both of these programs is their flexibility to allow the sources to achieve compliance in the most effective manner. Therefore, the Associates recommend that ARB use a similar approach to allocate allowances to facilities and not implement the pure auction approach recommended by EAAC.

The ARB has acknowledged that there are other regional and federal GHG cap and trade programs currently under consideration. GHG emissions have no boundaries, state, regional or otherwise and should be regulated accordingly. If ARB continues with their rulemaking, there is no reason why sources covered by the ARB program could not be included in region/national programs without duplication or additional costs. The EAAC stated in their report that allowances cannot be given to sources because of

potential conflicts with future programs. However, the Associates believe and recommend that ARB develop and include in their rulemaking a methodology that can accommodate sources with allowances while protecting the State from conflicts with future federal or regional programs.

In summary, the Associates recommend that any cap and trade program that is implemented in California provide allowances to existing facilities, based on historical emissions. The program should be flexible enough to allow sources, such as those of the municipal electric utilities, the ability to achieve the goals of the program through the most cost effective means without jeopardizing their ability to continue procuring renewable energy and meeting their other system requirements. The benefits of this approach are clear. The objectives of the Global Warming Solutions Act (AB 32) can be achieved. The program would be simple to implement, fair and cost effective. The customer/rate payer/businesses/residents of California will not be subjected to another substantial rate hike and the municipal electric utility will have some certainty in the management of their resources.

Sincerely,

*Kent W. Noyes*  
Kent W. Noyes  
President,  
Water and Power Associates, Inc.